

Message Text

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TAGS: EAGR, EGEN, ID

SUBJ: GOI CUTS FERTILIZER SUBSIDIES, RAISES RICE AND SUGAR
PRICES AGAIN

REF: JAKARTA 14208 (NOVEMBER 22, 1974)

1. SUMMARY: GOI ANNOUNCED NEW MEASURES OCTOBER 29 TO FURTHER REDUCE LARGE SUBSIDY ON FERTILIZER TO ROUGHLY 40 PERCENT, INCREASE RICE PRICES BY 15-20 PERCENT TO PROTECT FARMERS' INCOME, BOOST SUGAR PRICES 12 PERCENT, AND TO ENLARGE SMALL-HOLDER AGRICULTURAL CREDITS BY ABOUT 30 PERCENT AS PRODUCTION INCENTIVE. NEW PRICE MEASURES REPRESENT FURTHER PROGRESS IN GOI'S POLICY OF PHASING OUT COSTLY SUBSIDIES, ALTHOUGH PROBABLE INCREASE IN RETAIL RICE AND SUGAR PRICES WILL BE UNPOPULAR WITH CONSUMERS. FERTILIZER SUBSIDY REMAIN SUBSTANTIAL, BUT NEW RICE POLICY BRINGS PRICE VERY CLOSE TO CURRENT INTERNATIONAL MARKET LEVEL. END SUMMARY.

2. NEW GOI COMMODITY PRICES AND AGRICULTURAL POLICY MEASURES WHICH WERE ADOPTED BY NATIONAL ECONOMIC STABILIZATION COUNCIL CHAIRED BY PRESIDENT SUHARTO OCTOBER 28 AND ANNOUNCED TO PRESS BY
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SPOKESMAN MASHURI OCTOBER 29 ARE AS FOLLOWS:

3. FERTILIZER: NEW FERTILIZER POLICY, EFFECTIVE OCTOBER 29, INCREASES PRICE OF UREA, TSP AND NPK 15-15-15 FROM RUPIAH 60 TO RP.80/KG; AND DAP FROM RP.83.5 TO RP.110/KG. THESE PRICES APPLY TO FERTILIZER FINANCED WITH GOVERNMENT "BIMAS" SMALL HOLDER FARMER LOANS. PRICES OF FERTILIZER TO PLANTATIONS AND OTHER BUYERS WILL BE APPROXIMATELY 70 PERCENT HIGHER. NEW POLICY ALSO INCLUDES REALLOCATION OF FERTILIZER BETWEEN REGIONAL AREAS AND SECTORS TO IMPROVE DISTRIBUTION. SPOKESMAN MASHURI NOTED HIGHER FERTILIZER PRICES ARE ANOTHER STEP TOWARD GRADUAL ELIMINATION OF FERTILIZER SUBSIDIES, BUT SAID FERTILIZER PRICES WILL STILL BE 125 PERCENT LOWER THAN WORLD MARKET PRICE OF \$400 A TON.

(NOTE: \$400 WAS NEAR PEAK WORLD PRICE IN 1974. CURRENT WORLD FERTILIZER PRICE OF ABOUT \$250 MEANS GOI FERTILIZER SUBSIDY NOW CLOSER TO 40 PERCENT THAN 125 PERCENT CLAIMED.)

4. RICE: TO COMPENSATE FOR HIGHER FERTILIZER COSTS, ADJUST FARMERS INCOME TO OTHER PRICES, AND, HOPEFULLY, BOOST PRODUCTION, BUUD VILLAGE COOPERATIVES, WHICH BUY RICE FROM FARMERS, WILL PAY INCREASED PRICES TO FARMERS EFFECTIVE FEBRUARY 1, 1976. FOR EXAMPLE, BUUD PURCHASES PRICE FOR VILLAGE DRIED STALK PADDY WILL RISE FROM RP.42 TO RP.50/KG. AND FROM RP.58.5 TO RP.68.5/KG. FOR DRY PADDY (14 PERCENT MOISTURE). PRICE TO BE PAID TO BUUD'S BY BULOG (STATE LOGISTICS AGENCY, WHICH BUYS AND SELLS LARGE QUANTITIES OF RICE TO INFLUENCE RETAIL PRICE) FOR MILLED RICE WILL RISE FROM RP.59.5 TO RP.69.5/KG., AND MILLED RICE SOLD BY BULOG WILL RISE FROM RP. 97 TO RP.108/KG. (CURRENT WORLD RICE PRICE IS AROUND RP.120/KG.) TO PREVENT SHARP RISE IN RETAIL RICE PRICE IN ANTICIPATION OF FEBRUARY 1, 1976 PRICE INCREASES, BULOG, WHICH HAS APPROXIMATELY 1 MILLION TONS OF RICE IN STORAGE, WILL INJECT NEW RICE INTO MARKET BEFORE FEBRUARY 1.

5. SUGAR: PRICE OF SUGAR PAID TO FACTORIES INCREASED, EFFECTIVE OCTOBER 29 FROM RP. 17,000 TO RP 19,000/HUNDRED KILOGRAMS. SUGAR PRICE RISE DESIGNED TO REDUCE SUBSIDY, COVER INCREASED COST AND ENCOURAGE PRODUCTION.

6. EXPANDED CREDIT FOR FARMERS: LOW INTEREST "BIMAS" CREDITS WHICH GOVERNMENT MAKES TO FARMERS FOR PURCHASE OF SEED, FERTILIZER, IN-

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SECTICIDES, ETC., TO GROW RICE AND OTHER FOOD CROPS WILL INCREASE, BY ABOUT 30 PERCENT AS STIMULUS TO PRODUCTION. FOR EXAMPLE, BIMAS CREDIT AVAILABLE FOR PADDY CULTIVATION WILL INCREASE FROM RP 25,415 TO RP. 33,500 PER HECTARE PER SEASON, EFFECTIVE FEBRUARY 1, 1976

7. COMMENT: INCREASE IN FERTILIZER, RICE AND SUGAR PRICES FOLLOW SIMILAR MEASURES ANNOUNCED IN NOVEMBER 1974 (SEE REFTTEL) AND ARE

FURTHER, HEALTHY STEPS TOWARD GOI DESIGN TO PHASE OUT COSTLY SUBSIDIES, ALTHOUGH RICE AND SUGAR PRICE HIKES WILL PROBABLY INCREASE RETAIL PRICES ACCORDINGLY. EVEN WITH NIUSYTMACERTILIZER REMAINS HEAVILY SUBSIDIZED (BY ABOUT 40 PERCENT) BUT NEW RICE AND SUGAR PRICE MEASURES BRING THESE COMMODITIES CLOSER TO INTERNATIONAL PRICE LEVELS.

8. INCREASED RICE PRICES IF SUCCESSFUL WILL, IN EFFECT, ADJUST TERMS OF TRADE OF RICE FARMERS TO OTHER PREVAILING PRICES. WHETHER NEW PRICES WILL PROVIDE INCENTIVE FOR SUBSTANTIAL INCREASE IN PRODUCTION AS GOI CLAIMS, IS OPEN TO QUESTION, EVEN IF NEW PRICES ARE REALIZED BY MOST FARMERS. SIMILAR INCREASES ADOPTED IN NOVEMBER 1974 WERE NOT ALWAYS REALIZED BY FARMERS. BUUD'S AND BULOG ESTABLISHED QUALITY STANDARDS THAT MANY FARMERS WERE UNABLE TO MEET; AND BECAUSE OF BUUD'S LIMITED CAPACITY TO ABSORB ALL RICE OFFERED AT HARVEST, SOME FARMERS SOLD RICE TO PRIVATE TRADERS AT BELOW GOVERNMENT FLOOR PRICE.
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